BANKING | Q3FY21 Preview | 13 January 2021

All eyes on asset quality

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Q3FY21 is yet another quarter where management commentary will be watched even more keenly than reported earnings. The SC order on asset classification standstill remains in force which will lead banks to report proforma GNPAs. Key monitorables are clarity on expected slippages, restructuring pipeline and collection efficiency. For large private banks, credit growth is likely to beat the industry while credit costs should remain in check as they have built adequate buffers to cope with the impending stress.

Standstill on NPA recognition continues: As in Q2FY21, banks will continue to report proforma slippages/GNPAs in Q3 unless the Supreme Court lifts the asset classification standstill before results are declared. Our checks suggest that stress remains elevated in the credit card, CV and MFI space but could be much lower than earlier anticipated. Moreover, the damage in the SME and MSME segments has been largely contained by the ECLG scheme. A grey area that bears close monitoring is the stress accumulated over recent months due to the standstill.

Elevated provisions could cap earnings: Overall operating profit growth is likely to be modest for banks under our coverage. We expect treasury gains to be lower in Q3. Fee income should be better QoQ while we might see some uptick in opex. NIM is projected to remain flat but could decline as banks reverse interest on slippages. We believe that large private banks and State Bank of India have built adequate provision buffers to deal with the impending stress, but some smaller banks may continue shoring up their buffers in Q3 as well.

Credit growth remains subdued: As per the latest RBI data, credit growth in the system remains weak at <7% YoY. We expect Q3 credit growth for banks under our coverage to be marginally better than Q2 given the festive demand. As per Q3 business updates provided by select banks, HDFC Bank is the only outlier with a ~16% YoY uptick in credit while Federal Bank grew ~6% and IndusInd Bank stayed flat. Our channel checks suggest that traction in the mortgage and auto loan segments has picked up, but broad-based recovery in credit growth looks difficult before FY22.

RECOMMENDATION SNAPSHOT

Ticker	Rating
AXSB IN	BUY
CBK IN	ADD
DCBB IN	SELL
FB IN	ADD
HDFCB IN	BUY
ICICIBC IN	BUY
IDFCFB IN	SELL
IIB IN	BUY
KMB IN	BUY
RBK IN	SELL
SBIN IN	BUY

Source: BOBCAPS Research

FIG 1 – BOBCAPS BANKING UNIVERSE: Q3FY21 ESTIMATES

Particulars (Rs mn)	Q3FY21E	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	Comments
Axis Bank						Expect loan growth of 7-8% YoY with stable margins. Key aspects to monitor will be slippages, restructuring pipeline and BB-&-below rated pool.
Net interest income	75,809	64,530	73,261	17.5	3.5	
Pre-provisioning profit	70,164	57,427	68,976	22.2	1.7	
Profit after tax	20,040	17,570	16,827	14.1	19.1	
Canara Bank						Provisions are expected to stay elevated, curtailing earnings. Performance of the SME book and restructuring pipeline will be keenly watched.
Net interest income	62,016	34,350	62,965	80.5	(1.5)	
Pre-provisioning profit	45,364	23,343	46,398	94.3	(2.2)	
Profit after tax	2,815	3,296	4,444	(14.6)	(36.7)	
DCB Bank						Loan growth is forecast to remain weak. DCBB is likely to continue shoring up provisions, which would weigh on earnings. Commentary on asset quality and the restructuring pool is awaited.
Net interest income	3,319	3,231	3,339	2.7	(0.6)	
Pre-provisioning profit	2,131	1,899	2,248	12.2	(5.2)	
Profit after tax	702	967	823	(27.4)	(14.7)	
Federal Bank						Business momentum remains moderate while credit cost is likely to stay high. Management outlook on performance of the SME/retail and restructured portfolios will be in focus.
Net interest income	13,963	11,549	13,799	20.9	1.2	
Pre-provisioning profit	10,127	7,438	10,065	36.1	0.6	
Profit after tax	3,191	4,406	3,076	(27.6)	3.7	
HDFC Bank						Loan growth remains strong while NIM is estimated to remain healthy. Expect stable GNPAs with strong collection efficiency. Commentary on the retail unsecured portfolio will be keenly watched.
Net interest income	166,533	141,729	157,764	17.5	5.6	
Pre-provisioning profit	146,742	129,454	138,138	13.4	6.2	
Profit after tax	84,521	74,165	75,131	14.0	12.5	
ICICI Bank						Overall loan growth is expected to remain moderate but retail loan growth is likely to stay healthy. ICICIBC did indicate in Q2FY21 that slippages may rise but the bank has adequate provisioning buffers and healthy capital adequacy.
Net interest income	90,762	85,453	93,661	6.2	(3.1)	
Pre-provisioning profit	82,420	75,486	82,611	9.2	(0.2)	
Profit after tax	47,005	41,465	42,513	13.4	10.6	
IDFC First Bank						Expect strong retail momentum to continue both on the assets as well as liabilities side. We remain watchful of asset quality and the restructuring pipeline.
Net interest income	17,370	15,343	16,597	13.2	4.7	
Pre-provisioning profit	3,636	6,817	3,423	(46.7)	6.2	
Profit after tax	885	(16,389)	1,014	(105.4)	(12.7)	
IndusInd Bank						Loan growth remains flat while deposit momentum is comforting. Provisions are likely to stay elevated as the bank continues to shore up buffers. We await commentary on the CV, MFI, LAP and real estate portfolios.
Net interest income	32,668	30,742	32,780	6.3	(0.3)	
Pre-provisioning profit	28,291	27,577	28,520	2.6	(0.8)	
Profit after tax	6,076	13,092	6,631	(53.6)	(8.4)	
Kotak Bank						We expect loan growth to remain moderate while deposit accretion should hold strong. NIM is forecast to remain healthy. Commentary on the SME portfolio and unsecured business is a key monitorable.
Net interest income	39,244	34,295	39,132	14.4	0.3	
Pre-provisioning profit	29,190	23,881	32,975	22.2	(11.5)	
Profit after tax	17,907	15,959	21,845	12.2	(18.0)	
RBL Bank						Credit growth is forecast to remain weak while provisions are expected to remain. Key focus areas will be performance of the cards, SME and MFI portfolios.
Net interest income	9,202	9,227	9,321	(0.3)	(1.3)	
Pre-provisioning profit	7,066	7,322	7,198	(3.5)	(1.8)	
Profit after tax	1,394	700	1,442	99.3	(3.3)	
State Bank of India						Expect healthy asset quality with a manageable restructuring pipeline. Profitability is forecast to remain upbeat given one-off gains and write-backs from resolution of some corporate accounts.
Net interest income	295,952	277,788	281,815	6.5	5.0	
Pre-provisioning profit	193,824	182,226	164,598	6.4	17.8	
Profit after tax	67,768	55,834	45,742	21.4	48.2	

Source: BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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